



CFO Forum

July 21, 2004

Government of the District of Columbia
Office of the Chief Financial Officer
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CFO Forum Presenters

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Chief Financial Officer

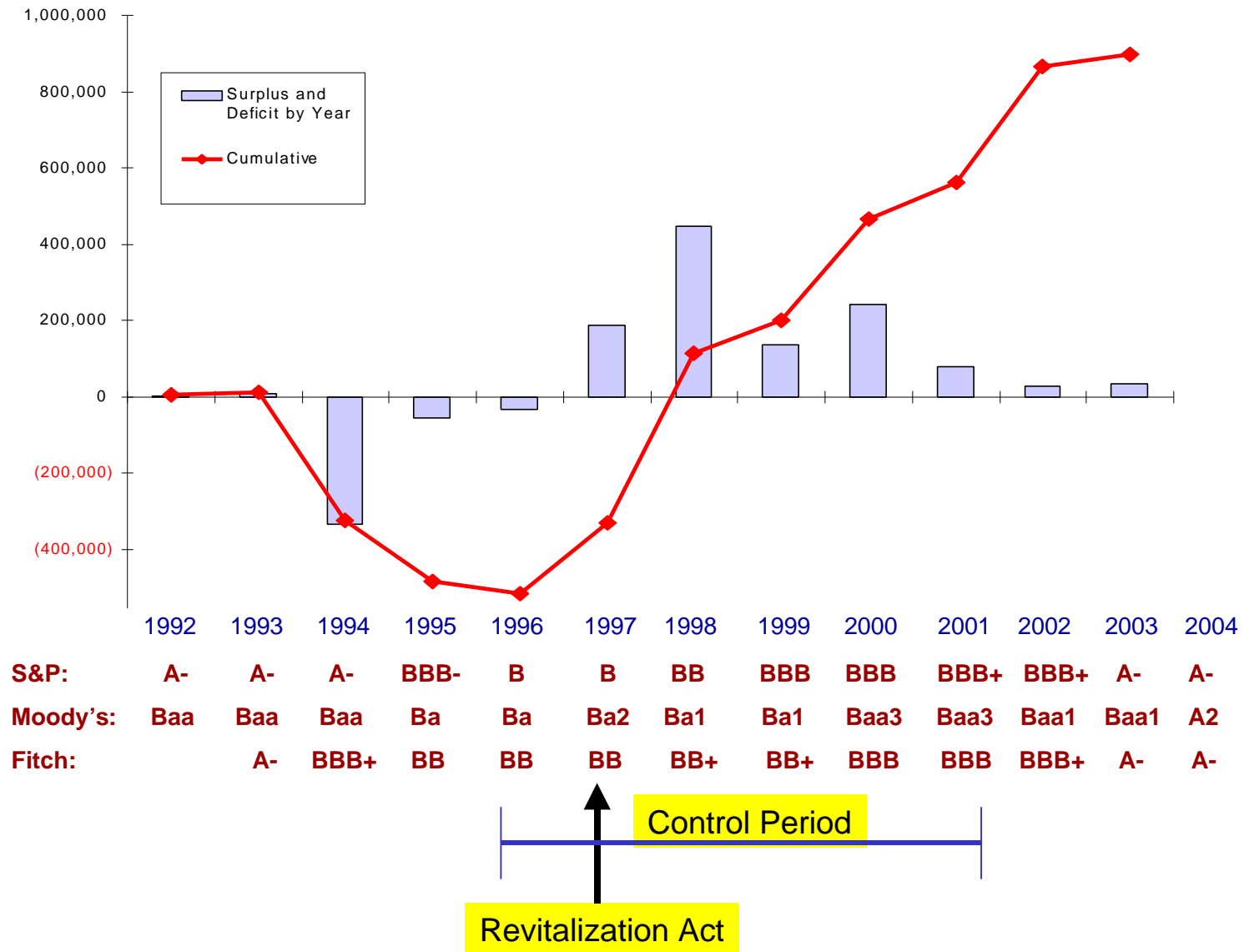
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FY92 – 03 Annual and Cumulative Surpluses and Bond Ratings





Eight Year Snapshot

(\$ in millions)

	FY 2003	FY 1996	Amount Change
Year-End Operating Cash	\$ 527.5	\$ (200.9)	\$ 728.4
Accumulated Fund Balance	\$ 897.4	\$ (518.2)	\$ 1,415.6
Total Local Source Tax Revenues	\$ 3,866.9	\$ 2,402.5	\$ 1,464.4
Total Local Source Expenditures	\$ 3,813.2	\$ 3,360.4	\$ 452.8
Total FTE's	30,527	33,208	(2,681)



Maintaining a Focus on Goals

- Ensure sound fiscal management by District agencies
- Put into place financial and business processes that run efficiently and effectively
- Deliver annually a clean opinion and a balanced budget
- Prevent the return of a Control Board



FY 2005 Budget Overview

- ▶ FY 2005 gross budget of \$6.26 billion is \$527 million more than the FY 2004 budget of \$5.73 billion (gross budget = local + special purpose + federal and private grants)
- ▶ FY 2005 local budget is \$4.2 billion.
- ▶ FY 2005 local expenditures increased by \$332 million or 8.7% over FY 2004 approved budget.
- ▶ 40% of the FY 2005 local funds growth rate of 8.7%, or \$127 million of the \$332 million increase, is due to one-time budget corrections for FY 2004 service level and rate increases. The remainder of the growth, 5.3% or \$205 million, is anticipated service level and cost increases for FY 2005 alone. If we isolate service-level and rate increases for just FY 2005, and remove one-time budget corrections, the FY 2005 growth would be 5.3% rather than 8.7%, which is in-line with the out-year growth rates.



FY 2005 Budget Overview

FY 2005 – Gross Operating Budget (\$ in billions)

Sources of Revenue to Fund Programs:

General Fund Revenue (Tax/Non-tax local revenue, plus Special Purpose revenue)	\$4.50	71.9%
Federal Grants (Including Federal Payments)	1.75	27.9%
Private Grants	0.01	0.2%
Total	\$6.26	100.0%

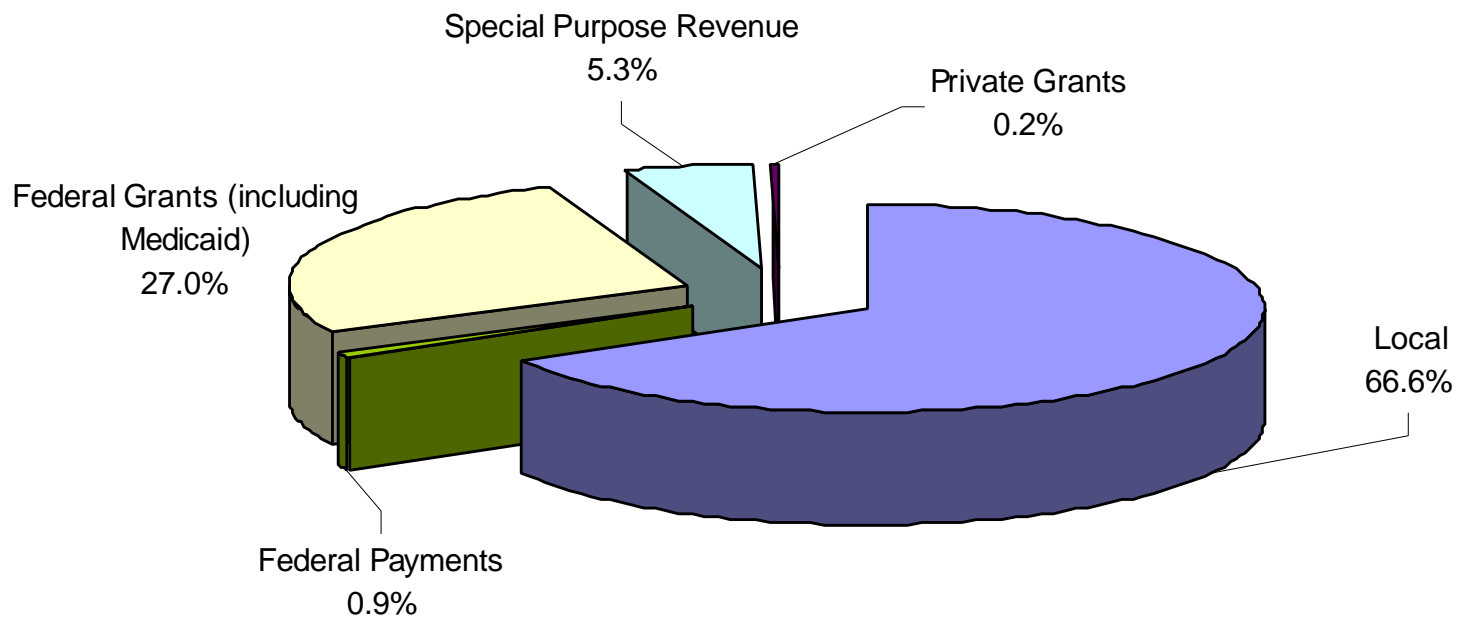
Uses of Revenue:

Governmental Direction and Support	\$0.42	6.7%
Economic Development	0.33	5.3%
Public Safety	0.79	12.6%
Public Education	1.27	20.3%
Human Support Services (ex. Medicaid)	1.16	18.5%
Medicaid	1.38	22.0%
Public Works	0.33	5.3%
Debt Service and Other	0.58	9.3%
Total	\$6.26	100.0%



FY 2005 Budget Overview

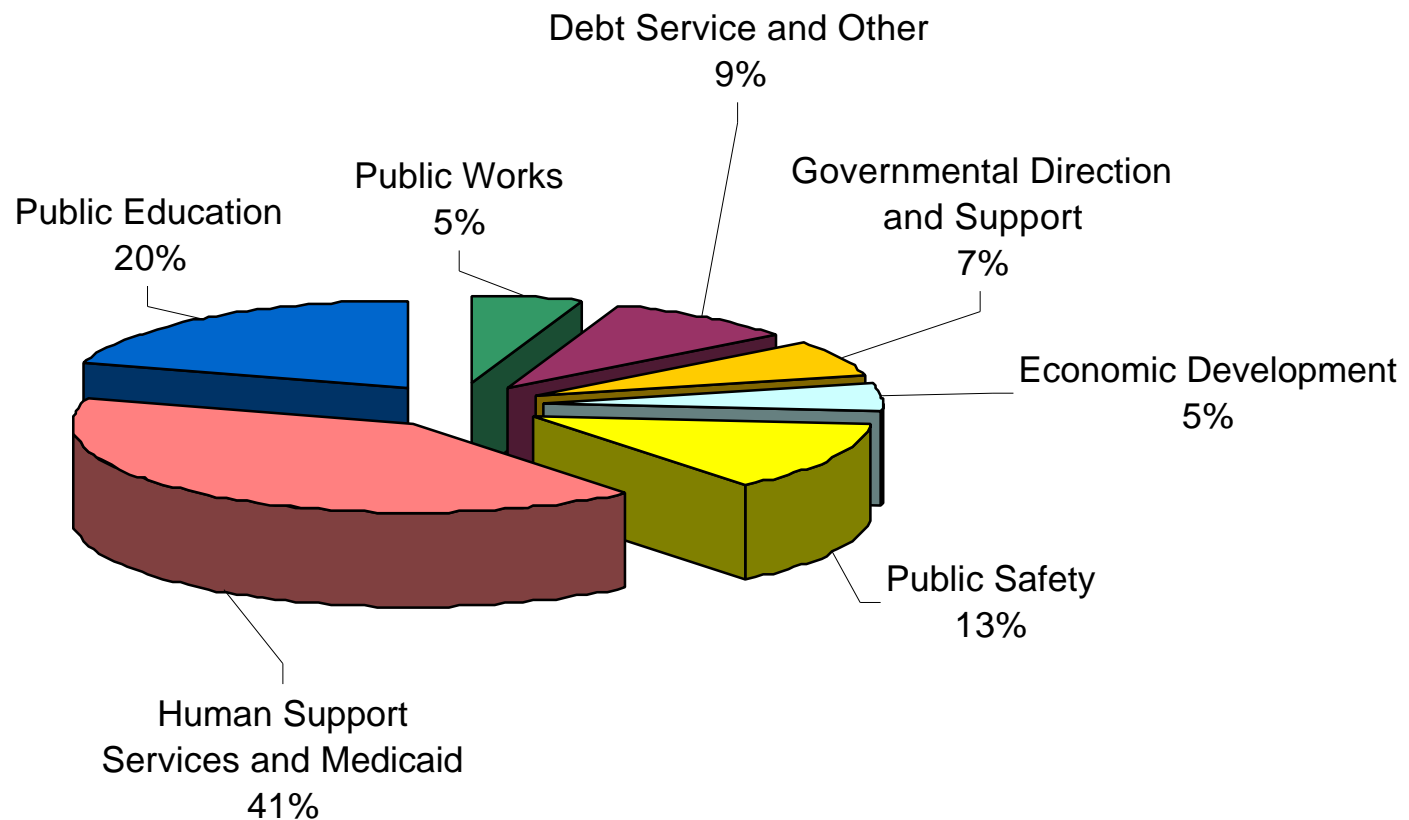
FY 2005 Gross Revenue by Source Total \$6.26 Billion





FY 2005 Budget Overview

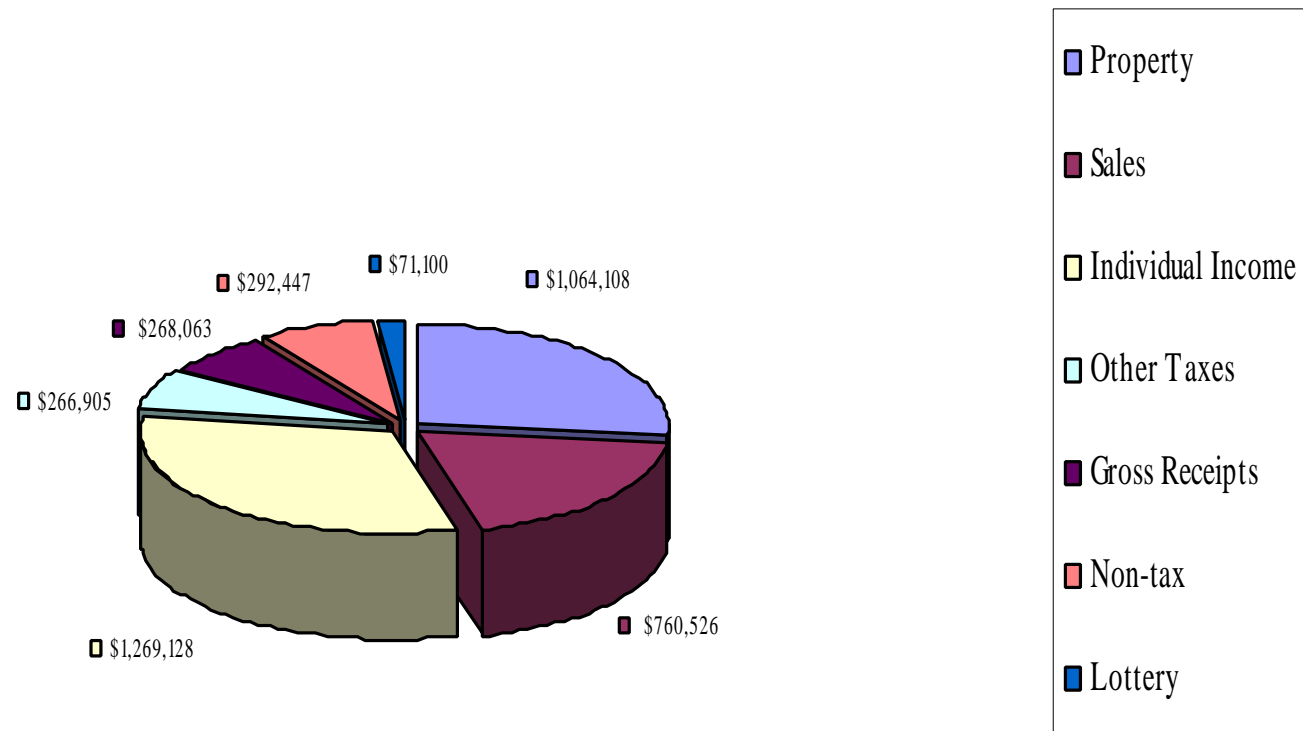
FY 2005 Gross Expenditures by Appropriation Title





FY 2005 Budget Overview - Revenues

FY 2005 General Fund Local Revenue by Source (\$ in millions)





FY 2005 Budget Overview - Revenues

FY 2003 - 2008 Revenue Actuals, Estimates and Projections for FY 2005 Budget (\$ in thousands)

Revenue Source	FY 2003 Actual	FY 2004 Feb-04 Revision	FY 2005 Feb-04 Baseline Budget	FY 2006 Feb-04 Projection	FY 2007 Feb-04 Projection	FY 2008 Feb-04 Projection
Total Property Tax Revenues	\$901,888	\$976,837	\$1,064,108	\$1,170,269	\$1,267,169	\$1,355,507
Total Sales Tax Revenues	694,494	726,425	760,526	793,683	826,256	859,805
Total Income Tax Revenues	1,167,452	1,207,694	1,269,128	1,301,385	1,307,399	1,309,380
Total Gross Receipts Tax Revenues	261,348	265,635	268,063	271,118	274,287	277,573
Total Other Taxes	268,192	264,626	266,905	285,910	302,975	320,510
TOTAL TAXES	\$3,293,374	\$3,441,217	\$3,628,730	\$3,822,365	\$3,978,086	\$4,122,775
TOTAL NON-TAX REVENUES	303,857	286,672	292,447	284,699	289,940	286,290
Lottery/Interfund Transfer	72,050	70,200	71,100	71,100	71,100	71,100
GO bonds & federal contributions	11,923	-	-	-	-	-
TOTAL NON-DEDICATED GENERAL FUND REVENUES	\$3,681,204	\$3,798,089	\$3,992,277	\$4,178,164	\$4,339,126	\$4,480,165
SPECIAL PURPOSE REVENUES	164,125	191,943	208,624	212,023	215,152	218,448
TOTAL GENERAL FUND REVENUES	\$3,845,329	\$3,990,032	\$4,200,901	\$4,390,187	\$4,554,278	\$4,698,613



FY 2005 Budget Overview - Five-Year Plan

FY 2004 - 2008 Proposed Budget and Financial Plan – General Fund (\$ in thousands)

	FY 2003 <u>Actual</u>	FY 2004 <u>Approved</u>	FY 2004 <u>Adjusted</u>	FY 2005 <u>Proposed</u>	FY 2006 <u>Projected</u>	FY 2007 <u>Projected</u>	FY 2008 <u>Projected</u>
<u>Revenues</u>							
1a General Fund Revenues	\$ 3,845,329	\$ 3,891,257	\$ 3,990,032	\$ 4,200,901	\$ 4,390,187	\$ 4,554,278	\$ 4,698,613
1b Local Fund Balance Use	1,802	96,498	129,423	49,365	0	0	0
1c Special Purpose Fund Balance Use	19,725	52,595	52,595	115,650	0	0	0
1d Revenue Enhancements	0	38,760	30,000	134,468	187,202	239,731	282,648
1 Total Resources	\$ 3,866,856	\$ 4,079,110	\$ 4,202,050	\$ 4,500,384	\$ 4,577,389	\$ 4,794,009	\$ 4,981,261
<u>Program Expenditures</u>							
2 General Program Expenditures	\$ 3,813,172	\$ 3,970,272	\$ 4,052,172	\$ 4,448,247	\$ 4,509,801	\$ 4,689,552	\$ 4,869,796
3 Grant Disallowances	0	57,000	57,000	0	0	0	0
4 Cash Reserve (Budgeted Contingency)	0	50,000	300	50,000	50,000	50,000	50,000
5 Tobacco Trust Fund (Program Funds)	0	0	0	0	2,000	4,000	6,000
6 Tobacco Trust Fund (Investment Funds)	0	0	0	0	0	0	0
7 Operating Costs of Capital and Lease Purchases	0	0	0	0	5,000	10,000	35,000
8 Total General Fund Expenditures	\$ 3,813,172	\$ 4,077,272	\$ 4,109,472	\$ 4,498,247	\$ 4,566,801	\$ 4,753,552	\$ 4,960,796
9 Operating Margin, Budget Basis	\$ 53,684	\$ 1,838	\$ 92,578	\$ 2,137	\$ 10,589	\$ 40,456	\$ 20,466
10 Beginning General Fund Balance	\$ 865,328	\$ 897,357	\$ 897,357	\$ 789,857	\$ 606,979	\$ 597,567	\$ 618,024
11 Operating Margin, Budget Basis	53,684	1,838	92,578	2,137	10,589	40,456	20,466
12a Deposit into the Emergency Reserve Fund (4%) from Fund Balance	0	(18,062)	(18,062)	(16,839)	(2,742)	(7,470)	(8,290)
12b Deposit into the Contingency Reserve Fund (3%) from Fund Balance	0	(13,457)	(13,457)	(2,202)	(2,241)	(15,845)	(6,217)
13a Deposit into the Emergency Reserve Fund (4%) to Cash Reserves	0	18,062	18,062	16,839	2,742	7,470	8,290
13b Deposit into the Contingency Reserve Fund (3%) to Cash Reserves	0	13,457	13,457	2,202	2,241	15,845	6,217
14 Projected GAAP Adjustments and Transfers (Net)	(21,655)	(167,153)	(200,078)	(185,015)	(20,000)	(20,000)	(20,000)
15 Ending General Fund Balance	\$ 897,357	\$ 732,042	\$ 789,857	\$ 606,979	\$ 597,567	\$ 618,024	\$ 618,489
<u>Composition of Fund Balance</u>							
16 Emergency Cash Reserve Balance (4%)	\$ 145,029	\$ 163,091	\$ 163,091	\$ 179,930	\$ 182,672	\$ 190,142	\$ 198,432
17 Contingency Cash Reserve Balance (3%)	108,771	122,318	122,318	124,520	126,761	142,607	148,824
18 Fund Balance not in Emergency & Contingency Reserves	643,557	446,633	504,448	302,529	288,134	285,275	271,234
19 Ending General Fund Balance (Line 15)	\$ 897,357	\$ 732,042	\$ 789,857	\$ 606,979	\$ 597,567	\$ 618,024	\$ 618,489



Debt Affordability

- At the direction of the CFO, the District conducted its first formal debt affordability study.
- The study allows District officials to forecast the effects of proposed debt issues on debt ratios, enabling them to make better informed decisions on funding capital needs and setting priorities.

Conclusion:

- The projected level of issuance appears manageable in view of the relatively low debt service burden.
- The study provides a framework for calculating the impact of each debt issue, which directly impacts budget planning and capital spending; it also allows the calculation of the theoretical debt capacity.
- The recent refundings and the 2001 tobacco restructuring have allowed the District to lower its debt position and improve its debt ratios.
- District's fund balance and reserves are ample and indicate that the District has the financial stability, flexibility and capacity to meet its financial obligations, especially debt service payments.



Debt Parameters for Capital Budgeting

- ▶ Amount of debt issued in any given fiscal year should not exceed 15% of the total current outstanding debt as of the end of the previous fiscal year.
- ▶ Debt issuance should not cause the District's per capita debt to exceed \$7,500.
- ▶ Debt issuance should not cause the debt limit ratio (maximum annual debt service to total local revenue) to exceed 13%, and cannot (legally) exceed 17% in any given year.

Debt Measures for Major U.S. Cities								
Debt Measures	District of Columbia	Phila.	New York City	Detroit	Chicago	Baltimore	San Antonio	Oakland
Net Overall Debt to Full Value	5.7%	9.2%	10.2%	11.0%	5.8%	2.7%	1.9%	5.2%
Net Overall Debt per Capita	\$ 5,887	\$ 2,422	\$ 5,425	\$ 925	\$ 3,764	\$ 805	\$ 608	\$ 2,913
Debt Service as a % of Total General Fund Revenues/Expenditures	7.5%	9.9%	8.6%	6.5%	19.8%	6.1%	21.1%	2.8%
Sources: FY 2003 CAFRs for the District, Philadelphia, New York City, Detroit, and Baltimore; FY 2002 CAFRs for Chicago, San Antonio and Oakland. *Full value and population figures for Detroit are from FY 2002, as they are unavailable for FY 2003.								



Problem Ahead: *Structural Imbalance*

- The GAO, in a May 2003 report, verified that the District suffers from a large, long-term structural imbalance.
- The estimated size of the gap in FY 2000 was between \$470 million and \$1.16 billion.
- In the GAO's analysis, a structural imbalance means that, over the long run, the District does not have a sufficient tax base to pay for an average level of services at average tax rates.
- The District has severe limitations on its tax base, notably an inability to tax non-resident earnings, a large percentage of tax-exempt property, and an inability to tax the city's largest employer – the federal government.
- The GAO found that the cost of delivering an average level of services is 75-85 percent higher in D.C. than the average state system, because of D.C.'s dense, urban population; high land values; expensive labor market; and relatively high incidence of poverty.
- Although the District's elected leadership continues to achieve balanced annual budgets, the structural imbalance eats away at the financial foundation of the city.